

10001  
ROYAL CROWN  
COMPANIES, INC.

ANNUAL REPORT 1978



ARBY'S  
ADDRESS: 10001  
CLEVELAND, OH 44115





**Soft Drink** Royal Crown Cola Co. is a leading soft drink producer. RC Cola, the third largest selling cola; Diet Rite Cola, the original low calorie cola; and delicious Nehi flavors are recognized brands sold throughout the U.S. and in many countries of the world.

**Fast Food** Arby's is the nation's largest roast beef sandwich chain. With 819 restaurants in 43 states, Arby's is among the top chain restaurants.

**Citrus** Adams and Texsun are among the leading citrus juice processors in the country. Their products are used daily by families enjoying healthy, refreshing, 100% pure orange and grapefruit juice.

**Home Furnishings** Four companies in this division provide products to meet a wide variety of lifestyles. From higher priced decorator/designer Frederick Cooper lamps and Couroc serving trays to medium-priced Athens furniture and Hoyne mirror tiles for the do-it-yourself decorator.

#### **Contents**

1. Financial Highlights
2. Letter to Shareholders
4. Soft Drink
6. Fast Food
8. Citrus
10. Home Furnishings
11. Consolidated Financial Statements
15. Notes to Consolidated Financial Statements
19. Management's Analysis of Operations
20. 5-Year Financial Summary by Business Segment
21. Officers and Directors

The Annual Meeting of Shareholders of Royal Crown Companies, Inc. will be held at 1:00 p.m. on Tuesday, April 17, 1979, at 100 West 10th Street, Wilmington, Delaware.

The following are trademarks owned by Royal Crown Companies, Inc. and its subsidiaries: RC, Diet Rite, Nehi, Arby's, Adams, Texsun, Vintage, Frederick Cooper, Couroc, Athens, Hoyne.



## Financial Highlights

Dollar amounts in thousands except per share data

CLEVELAND PUBLIC LIBRARY  
BUSINESS INF. BUR.  
CORPORATION FILE

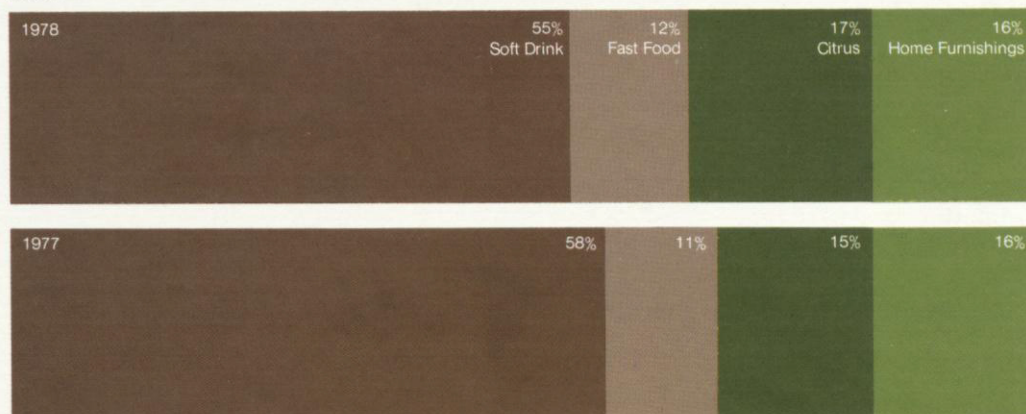
	1978	1977*
Net sales _____	\$ 390,683	349,619
Income before unusual write-offs and losses and before income taxes _____	16,670	33,574
Provision for unusual write-offs and losses _____	14,950	
Net income _____	1,381	18,609
Dividends declared _____	8,352	7,300
Shareholders' equity _____	93,438	100,171
Working capital _____	46,029	53,103
Long-term debt _____	50,235	33,533
Additions to property, plant and equipment _____	28,825	27,758
Depreciation and amortization _____	12,769	11,602
Number of employees _____	5,100	5,550
Number of shareholders _____	12,376	12,855
Average number of common shares outstanding _____	8,186,509	8,176,325

### Per Share Data

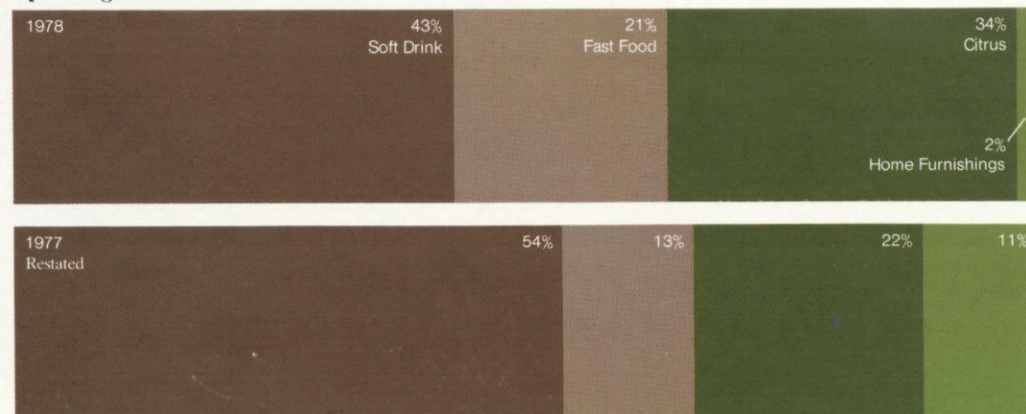
Shareholders' equity _____	\$ 11.41	12.25
Dividends declared _____	1.02	.90
Provision for unusual write-offs and losses _____	1.06	
Net income _____	.17	2.27

\*Restated

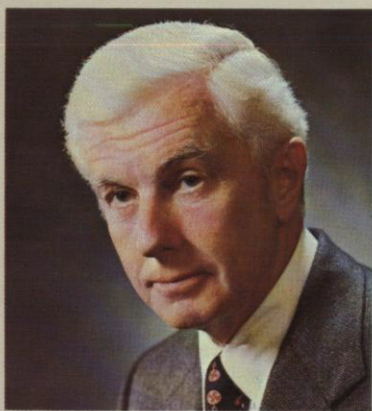
### Sales



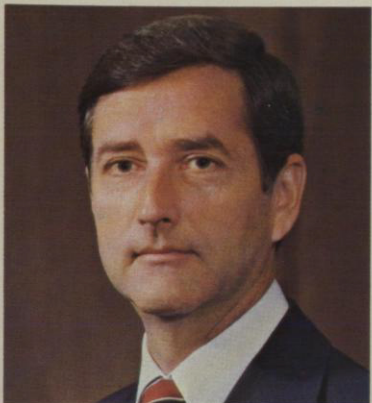
### Operating Profit







William T. Young  
Chairman of the Board



Donald A. McMahon  
President and Chief Executive

### **To Our Shareholders:**

Although sales were up, 1978 was a disappointing year. This was due primarily to losses sustained in company-owned soft drink bottling plants. Volatility in profits in several of these bottling plants has been a concern for many years. A number of these operations were acquired in order to preserve distribution of Royal Crown products. We now believe that the company's long-term interest will be served best by disposition of those plants which have been consistently unprofitable.

In line with this decision, we have sold bottling plants in Dallas, Houston, San Antonio, and Memphis. These plants, disposed of in 1978, incurred operating losses of approximately \$5 million. A determination on other unprofitable plants will be made in early 1979.

To reflect the one-time losses involved primarily in these sales and to establish reserves for the sale of other plants, approximately \$15 million has been written off in 1978. This one-time charge, equivalent to \$1.06 per share, reduced earnings from \$1.23 per share to 17 cents per share. This decision will enable us to concentrate our resources on the further development of the franchised bottling network and on stronger national advertising and promotional support.

To head this redirected effort, Fred M. Adamany, one of our most successful bottlers for nearly 20 years and for the past two years an executive of Beatrice Foods, was chosen for the presidency of the soft drink division. We are confident that our soft drink operations will show a sharp improvement in 1979 under his leadership.

In fast food, Arby's, the nation's leading roast beef sandwich chain with 819 restaurants, has continued its impressive growth and finished the year with record sales and earnings. Arby's systemwide sales in 1978 were \$354 million, and we look for continuing gains in 1979.

Jefferson T. McMahon, no relation to Chief Executive Donald A. McMahon, was elected President of Arby's in late 1978. Jeff has been one of Arby's leading licensees and was an executive with National Industries before entering the fast food business in 1972. Since then he has built a chain of 35 Arby's stores which Royal Crown Companies has agreed to acquire early in 1979.



Our citrus division, consisting of Adams Packing Association in Florida and the Texsun Corporation in Texas, has achieved another record year in sales and earnings under the excellent management of Ben R. Adams, its President. We are looking forward to another good year in the citrus division in 1979.

In home furnishings, Frederick Cooper, Athens, and Couroc had excellent results. Performance of Hoyne Industries, however, was severely hampered by a management decision to write down obsolete inventory.

Reflecting the confidence of management and the Board of Directors, the quarterly dividend was increased from 25 cents to 26 cents a share on August 1, 1978. Royal Crown Companies has increased its dividend in each of the past seven years, and this increase, during a very difficult year, reflects the positive earnings outlook for the company. We fully expect a strong upturn in earnings in 1979.

Fred R. Sullivan, Chairman of the Board, President and Chief Executive Officer of Walter Kidde & Company, Inc., was elected a Director on October 4. Mr. Sullivan brings long experience as a chief executive of a major American corporation to our Board.

Clarence B. Hanson, Jr., a Director since 1959 and Chairman of our Executive Committee, will retire on April 17, 1979. On behalf of the entire Board of Directors we express our sincere appreciation for Mr. Hanson's many contributions to Royal Crown. We will miss his wise counsel and advice and extend our best wishes to him for many years of good health and prosperity in the future.

Looking ahead, we feel that decisions have been made that will enable the strong management now in place to reestablish the earnings trend that the company has enjoyed in recent years.

We appreciate the continued support of our shareholders and the dedicated effort of our franchisees and employees.

Respectfully,

*William T. Young*  
William T. Young  
Chairman of the Board

*Donald A. McMahon*  
Donald A. McMahon  
President and Chief Executive

March 21, 1979

CLEVELAND PUBLIC LIBRARY  
BUSINESS INF. BUR.  
CORPORATION FILE





Fred M. Adamany, President  
Soft Drink Division

**Soft Drink** Royal Crown Cola Co. is the fifth largest soft drink company in an industry with an estimated wholesale sales volume in excess of \$12 billion. Backed by nationwide television advertising, RC Cola, Diet Rite, and Nehi are among the leading brands sold across the country.

The strength of the soft drink division is the independent franchised bottlers who account for 75 percent of case sales. Royal Crown has 251 franchised bottlers and 8 company-owned plants in the U.S.

Within the last few years the fastest growing package in food store sales has been the 64 oz./2 liter bottle. It currently accounts for 15 percent of industry sales. Royal Crown bottlers have participated in this growth; at year end 200 bottlers were distributing RC Cola in 64 oz./2 liter bottles. 129 bottlers are distributing soft drinks in plastic bottles and a growing number are scheduled to add this package in 1979.

Late in the year Royal Crown Cola Co. appointed Ogilvy & Mather as its advertising agency. Recognized for its creative campaigns, the agency handles advertising for American Express, General Foods, Campbell Soup, Sears Roebuck, and many other leading companies. The Royal Crown account will be Ogilvy & Mather's eighth largest domestic account.



Royal Crown recently introduced Dr. Nehi in several test markets. This delicious new soft

drink received favorable acceptance and is being distributed by 69 bottlers. Expansion into additional markets is planned during 1979.

Internationally, the soft drink division achieved record sales and earnings for the fourth consecutive year. Royal Crown products are sold in 52 countries overseas by 105 franchised bottlers.

RC Cola, Diet Rite, Nehi — cool,  
refreshing, enjoyable. Part of the fun  
of outdoor activities.











**Fast Food** Arby's, Inc. revenues reached \$47.1 million and operating profit was \$5.5 million for the year.

The nation's leading roast beef restaurant chain continued its aggressive growth in 1978. 133 new restaurants were opened, bringing the total to 819 units in 43 states, 84 company-owned and 735 licensed.

Systemwide sales (licensed and company-owned stores) of \$354 million show a 27 percent increase over 1977. Since 1974 total sales grew from \$120 million to \$354 million, an annual compound growth rate of 31 percent. During the same period 380 new restaurants were added and the average sales volume of units opened 12 months or more in 1978 was \$468 thousand compared with \$294 thousand in 1974.



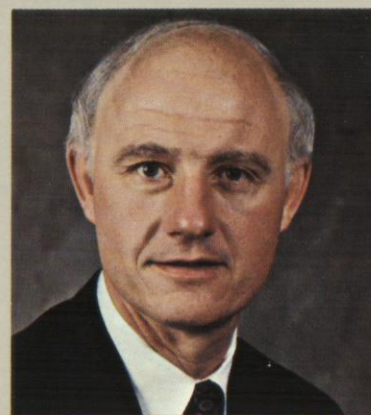
The new building continues to draw praise from customers and community organizations. A number of awards have been presented to Arby's for building design and landscaping. By year end 1978 there were 228 new design restaurants in operation.

During the latter part of the year Arby's successfully introduced a Beef 'n Cheddar sandwich, tender roast beef with tangy cheddar cheese sauce and dressing on an onion bun. Another new menu item is the Arby's platter, roast beef on a sesame seed bun, golden brown potato cakes and coleslaw. The platter has added volume to evening meals. Studies indicate after 5:00 p.m. meals account for approximately 40 percent of sales volume.

To meet its continuing manpower needs Arby's conducts a training school for all employee levels. During 1978 approximately 700 people participated in the program. Subjects include operations, communications, motivational training, recruiting, hiring, and employee development.

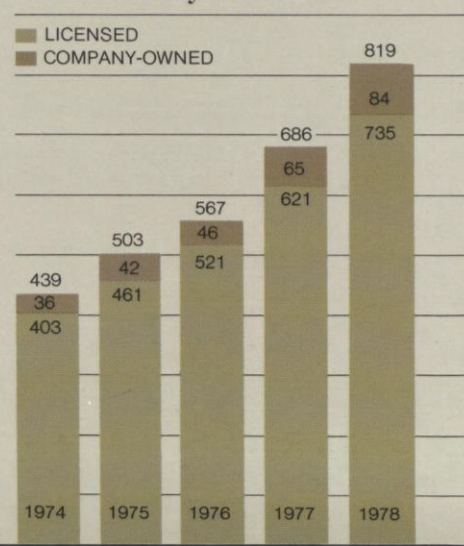
Arby's moves into a new stage of its growth in 1979 with its first network television advertising. Scheduled to be launched in late spring, the campaign is planned for prime nighttime viewing. The program will build greater awareness of Arby's and position it as the nation's leading roast beef sandwich restaurant chain.

There are 228 new design restaurants in the Arby's chain. The award winning design includes rich, warm, inviting interiors.

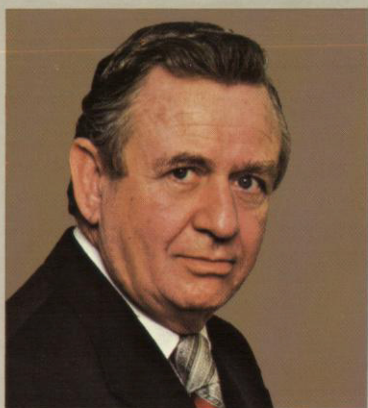


Jefferson T. McMahon, President  
Fast Food Division

Number of Arby's Units







Ben R. Adams, President  
Citrus Division

**Citrus** The citrus division achieved record sales and earnings in 1978.

The U.S. Department of Agriculture in its annual forecast estimated the 1979 citrus crop to be close to the prior year's volume. However, there was a freeze in Texas in January 1979 which could affect fruit availability and juice yield in 1980.

Long considered a breakfast drink by many people, 100% pure citrus juices are an ideal, refreshing drink any time of the day, especially with the country's growing interest in nutrition and increased leisure time activities. To broaden the use of orange juice the Florida Citrus Commission is running a national television advertising campaign with the theme, "It's not just for breakfast anymore." Professional golfer Nancy Lopez, world ranked tennis player Yvonne Goolagong, and many other celebrities are featured. Current research indicates the American consumer considers orange juice a food staple and an integral part of daily meals.

Adams Packing Association, located in Auburndale, is the fifth largest citrus processor in Florida. Adams products include frozen concentrate, chilled and canned juice, and fresh fruit. Its products are marketed under the Adams and leading food chain labels throughout most of the U.S.

Adams continued its successful marketing effort in the juice dispensing machine field. Under the Vintage brand name Adams' citrus juices are being supplied to a growing number of restaurants, colleges, hospitals, and other mass feeding institutions.

Texsun, located in Weslaco, Texas, with more than 40 years of retail food store sales and a consistent program



of advertising, has built a strong consumer awareness. It is the largest selling brand name canned grapefruit juice in the country. Different from Florida, the grapefruit grown in the Rio Grande Valley has a low acid, high sugar content which gives it a unique taste.









Home Furnishings Presidents:

- 1) Basil Turbyfill, Athens Furniture
- 2) Leo Gershanov, Frederick Cooper
- 3) Elmer M. Guzy, Hoyne Industries
- 4) Richard P. McDermott, Couroc

**Home Furnishings** Royal Crown's home furnishings products appeal to a wide range of customers of different ages, incomes, and lifestyles. Frederick Cooper and Tyndale lamps are recommended by professional decorators and interior designers.

Couroc is a leader in quality serving trays, with wide distribution in major department stores and giftware outlets. Athens furniture is designed for families using mid-priced bedroom and family room furniture. Hoyne mirror tiles are used by the do-it-yourself decorator.

In 1978 Athens and Frederick Cooper achieved record sales and earnings, while Couroc improved its results over the prior year. Hoyne Industries' sales were up slightly, but the company's performance was unsatisfactory due to a sizable inventory write-down and the necessity of responding to severe pricing conditions in the marketplace. With the one-time effect of the write-off accomplished in 1978, Hoyne Industries is expected to show an improvement in earnings in the current year.



(Right) Hoyne beveled mirror tiles set a new fashion trend.

(Below) Home furnishings designed for today's lifestyles.

In 1978 Structural Industries, a maker of picture frames, was sold to its former owner.





# Consolidated Statements of Income and Retained Earnings

Royal Crown Companies, Inc. and Subsidiaries

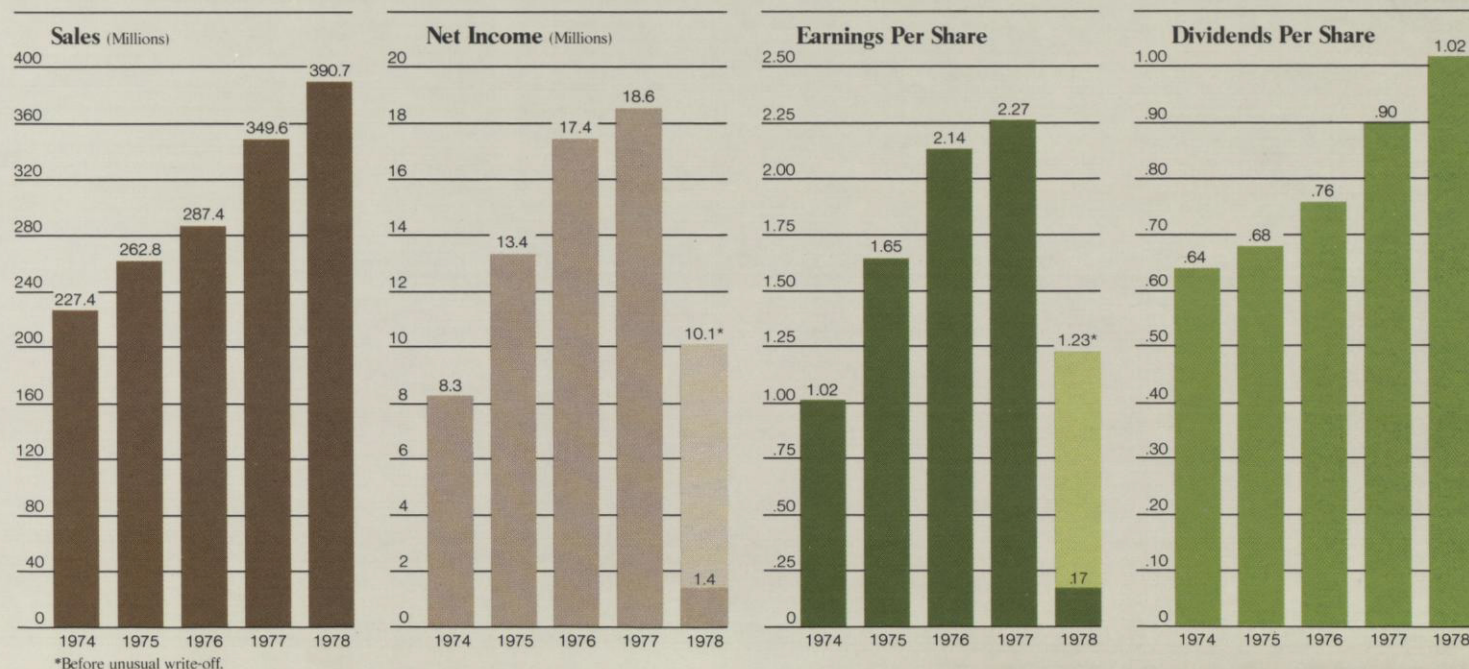
In thousands of dollars

	Year Ended December 31	
	1978	1977*
Net sales	\$390,683	349,619
Cost of sales	237,086	197,378
Gross profit	153,597	152,241
Marketing, administrative and other expenses	131,790	117,109
Operating profit	21,807	35,132
Interest expense	(5,545)	(3,084)
Other income, net	408	1,526
Income before unusual write-offs and losses and before income taxes	16,670	33,574
Provision for unusual write-offs and losses	14,950	
Income before income taxes	1,720	33,574
Provision for income taxes	339	14,965
Net income:		
1978—\$ .17 per share	1,381	
1977—\$2.27 per share		18,609
Dividends declared:		
1978—\$1.02 per share	8,352	
1977—\$ .90 per share		7,300
Retained earnings:		
During the year	(6,971)	11,309
At beginning of the year	83,654	72,345
At end of the year	\$ 76,683	83,654

\*Restated  
See notes to consolidated financial statements.

## 5 Year Financial Summary

Restated





# Consolidated Balance Sheets

Royal Crown Companies, Inc. and Subsidiaries

In thousands of dollars

	December 31	
	1978	1977*
<b>ASSETS</b>		
Current assets:		
Cash	\$ 5,821	4,047
Receivables less allowance for doubtful accounts:		
1978 — \$1,746	36,058	
1977 — \$1,485		27,202
Inventories:		
Products finished and in process	22,173	23,650
Materials and supplies	21,307	24,579
Refundable income taxes	4,154	
Prepaid expenses	3,346	2,314
Total current assets	92,859	81,792
Long-term notes receivable less \$3,928 for unamortized imputed discount and \$1,076 for allowance for doubtful collection	4,203	
Investments and other assets	3,368	3,870
Property, plant and equipment:		
Land	10,594	7,711
Buildings	40,096	32,191
Production equipment	50,312	45,334
Delivery equipment	26,280	27,823
	127,282	113,059
Less accumulated depreciation	45,705	42,656
	81,577	70,403
Capitalized leased assets:		
Buildings	5,930	4,834
Production equipment	866	336
Delivery equipment	5,431	5,871
	12,227	11,041
Less accumulated amortization	5,081	4,306
	7,146	6,735
Goodwill	10,855	10,239
	<u>\$200,008</u>	<u>173,039</u>

\*Restated

See notes to consolidated financial statements.



# Consolidated Balance Sheets

Royal Crown Companies, Inc. and Subsidiaries

In thousands of dollars

	December 31	
	1978	1977*
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and capitalized lease obligations	\$ 1,496	1,645
Notes payable	6,855	551
Dividends payable	2,131	2,045
Accounts payable	22,864	15,701
Accrued expenses	13,484	8,578
Accrued income taxes		169
Total current liabilities	46,830	28,689
Long-term debt	50,235	33,533
Capitalized lease obligations	6,602	5,909
Deferred income taxes and deferred credits	2,903	4,737
Shareholders' equity:		
Preferred stock at no par:		
authorized 3,000,000 shares; none issued		
Common stock at \$1 par:		
authorized 12,000,000 shares:		
issued and outstanding: 1978—8,194,825	8,195	
1977—8,179,825		8,180
Capital in excess of par	8,560	8,337
Retained earnings	76,683	83,654
Total shareholders' equity	93,438	100,171
	<u>\$200,008</u>	<u>173,039</u>

\*Restated  
See notes to consolidated financial statements.



# Consolidated Statements of Changes in Financial Position

Royal Crown Companies, Inc. and Subsidiaries

In thousands of dollars

Year Ended December 31

## SOURCE OF WORKING CAPITAL

### From operations:

	1978	1977*
Net income	\$ 1,381	18,609
Depreciation and amortization	12,769	11,602
Deferred income taxes	(2,042)	365
Provision for unusual write-offs and losses not requiring a current outlay of working capital	6,167	
Tax benefit of preacquisition operating loss carry-forward of Arby's		1,047
Total from operations	18,275	31,623
Increase in long-term debt	16,702	19,949
Disposals of property, plant and equipment	6,540	112
Increase in lease obligations	693	1,529
Common stock issued	238	106
	<u>42,448</u>	<u>53,319</u>

## APPLICATION OF WORKING CAPITAL

Dividends	8,352	7,300
Additions to property, plant and equipment	28,825	27,758
Leased assets capitalized	1,856	3,101
Increase (decrease) in goodwill	1,115	(299)
Increase (decrease) in other assets	(502)	759
Increase in long-term notes receivable	9,207	
Decrease in deferred credits	669	482
Noncurrent tangible assets less noncurrent liabilities of three bottling plants		3,233
	<u>49,522</u>	<u>42,334</u>
Increase (decrease) in working capital	<u>\$ (7,074)</u>	<u>10,985</u>

## INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT

Cash	\$ 1,774	1,199
Receivables	8,856	(2,883)
Inventories	(4,749)	16,474
Refundable income taxes	4,154	
Prepaid expenses	1,032	(1,165)
Current long-term debt and capitalized lease obligations	149	1,135
Notes payable	(6,304)	(351)
Accounts and dividends payable	(7,249)	(4,422)
Accrued expenses	(4,906)	(872)
Accrued income taxes	169	1,870
Net increase (decrease) in working capital	(7,074)	10,985
Working capital at beginning of year	53,103	42,118
Working capital at end of year	<u>\$46,029</u>	<u>53,103</u>

\*Restated  
See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

Royal Crown Companies, Inc. and Subsidiaries

## 1. Name Change

On March 7, 1978, Royal Crown Companies, Inc., a wholly-owned subsidiary of Royal Crown Cola Co., was merged into its parent, and the name of the surviving corporation was changed to Royal Crown Companies, Inc.

## 2. Summary of Significant Accounting Policies

All subsidiaries are wholly-owned and, except for an insurance company immaterial in size which is carried at equity, are consolidated in the statements.

In certain subsidiaries, checks are issued against a centrally-managed bank account to enhance the availability of cash, creating negative cash balances which are reported as zero with the offsetting credit classified as accounts payable. Amounts reclassified were \$9,195,000 and \$4,322,000 in 1978 and 1977, respectively.

Appropriate allowances are provided for all doubtful collections of trade and long-term notes receivable.

Inventories are stated at the lower of cost (computed on the average or first-in, first-out methods) or net realizable value.

Property, plant and equipment are stated at cost, except for some returnable soft drink containers stated at deposit value (less than cost). Book depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Maintenance and repairs are charged to income as incurred.

Financing leases are capitalized at the lesser of net present values of future minimum payments or fair market values at lease inception dates. Capitalized leased assets are amortized on a straight-line basis over the terms of the leases and interest expense is calculated on outstanding obligations.

Unamortized imputed discount is amortized as income over the term of the related note receivable using the interest method.

Goodwill of \$2,783,000 pertaining to companies purchased prior to 1970 has a continuing value and is not being amortized; the remaining \$8,072,000 is being amortized generally over 40 years.

Franchise fees are deferred upon receipt and recognized as income when the franchise restaurant is opened.

Deferred income taxes are provided to recognize timing differences between financial and tax reporting. Investment tax credits are credited to the current income tax provision as realized.

Advertising costs are charged to income during the year in relation to sales and are fully expensed by the end of the year.

Current pension costs plus past service costs amortized over 30 years are accrued and funded.

The statements of foreign subsidiaries are translated into U.S. dollars on the following basis: cash and accounts receivable and payable at rates of exchange approximating the rates at year end; other assets and liabilities, principally inventories, plant and equipment and related depreciation, at historical rates of exchange; income and expenses, other than those related to assets and liabilities translated at historical rates, at average rates for the year. Translation gains and losses were not significant.

No income charges or credits are recorded for stock option transactions.

Net income per share is computed by dividing net income by the average number of shares outstanding during each year after recognizing dilutive options.

## 3. Income Taxes

The provision for income taxes was \$339,000 for 1978 and \$14,965,000 for 1977. Reconciliations of the difference between the federal statutory tax rate and the effective book tax rate follow:

	1978	1977
Federal statutory tax rate . . . . .	48.0%	48.0%
Investment tax credits . . . . .	(57.3)	(5.3)
State taxes, net of federal tax benefits . . . . .	22.2	2.3
Amortization of goodwill . . . . .	5.8	.5
Other items, net . . . . .	1.0	(.9)
Effective book tax rate . . . . .	<u>19.7%</u>	<u>44.6%</u>

Federal, state and foreign income taxes were credited (charged) to the following balance sheet accounts:

In thousands of dollars	1978	1977
Currently payable . . . . .	\$ 2,458	13,553
Deferred . . . . .	(2,119)	365
Goodwill . . . . .		1,047
	<u>\$ 339</u>	<u>14,965</u>

The credit to Goodwill in 1977 represents the remaining tax benefit of a preacquisition net operating loss carry-forward of Arby's. While the tax benefit reduced the income tax payable on Arby's earnings, it could not be used as a reduction of the consolidated tax provision but had to be used to reduce the goodwill resulting from the Arby's acquisition.

The provision for federal income taxes includes deferred tax expense (benefit) resulting from timing differences in the recognition of revenue and expense for tax and book purposes. The sources of these differences and the tax effect of each were as follows:

In thousands of dollars	1978	1977
Depreciation . . . . .	\$ (330)	75
Loss on sale and provision for loss on future disposition of certain soft drink bottling operations . . . . .	(895)	
Loss on subleasing of idle plant . . . . .	(426)	
Relocation expenses . . . . .	(336)	
Loss on discontinuance of product lines . . . . .	(315)	
Other, net . . . . .	183	290
	<u>\$(2,119)</u>	<u>365</u>

## 4. Borrowings

Of the long-term debt, \$25,000,000 represents 15-year senior notes issued in 1978 to eight private lenders at an interest rate of 8.8%, payable \$2,500,000 annually beginning July 1, 1984. Additional 15-year senior notes of \$25,000,000 at an



interest rate of 8 $\frac{5}{8}$ % are payable \$2,500,000 annually beginning June 15, 1983. Per the related note agreements, the Company must maintain both a minimum working capital of \$30,000,000 and current assets at least 1  $\frac{1}{2}$  times current liabilities. The Company must also limit its consolidated borrowings to 1  $\frac{1}{3}$  times total Shareholders' Equity plus deferred credits less intangible assets and restrict its dividends to \$6,000,000 plus 75% of net income after December 31, 1976. Retained earnings available for dividends at December 31, 1978 were \$5,400,000.

The Company has lines of credit extended by commercial banks totaling \$16,000,000 at December 31, 1978, which require compensating balances of \$1,500,000.

## 5. Provision for Unusual Write-offs and Losses

In 1978, as recommended by management, the Board of Directors approved (1) the disposition of certain soft drink bottling operations which have incurred operating losses in recent years, (2) the sale of a home furnishing subsidiary and (3) the recognition of other unusual expense items, which resulted in a \$14,950,000 pretax charge to the 1978 statement of income comprised of the following:

In thousands of dollars

Loss on sale and provision for loss on future disposition of certain soft drink bottling operations . . .	\$10,966
Loss on sale of home furnishing subsidiary and related write-off of applicable goodwill . . . . .	1,225
Loss on subleasing of idle plant . . . . .	887
Relocation expenses . . . . .	700
Loss on discontinuance of product lines . . . . .	1,172
	<u>\$14,950</u>

Pursuant to the above, the Company had as of December 31, 1978 sold all of the assets (except cash, land and buildings, net of certain liabilities) of four bottling operations resulting in a loss of \$9,476,000. The Company also sold the stock of a home furnishing subsidiary at a loss of \$1,225,000. These sales were to companies formed by employees of the operations sold. The net sales and operating profit included in the Company's 1978 consolidated statement of income for the operations that were sold and the net assets of the operations sold at their respective disposition dates are shown below:

In thousands of dollars

	Home Furnishings	Soft Drink Bottling
For period: . . . . .	7 months ended 7/31/78	12 months ended 12/31/78
Net sales . . . . .	\$ 3,597	25,061
Operating income (loss) . . . . .	190	(4,831)
At: . . . . .	7/31/78	12/31/78
Current assets . . . . .	\$ 2,355	7,104
Fixed assets, net . . . . .	222	4,946
Other assets . . . . .		152
Liabilities . . . . .	(333)	(506)
Net assets . . . . .	<u>\$ 2,244</u>	<u>11,696</u>

The principal proceeds received by the Company from the above sales were notes receivable, collateralized by the assets sold, in the aggregate face amount of \$9,207,000, which bear interest at rates below current market. Accordingly, the notes were recorded at a present value using more appropriate interest rates. The resulting imputed discount is deducted from the face amount of the notes in the balance sheet. The imputed interest will be amortized as interest income over the life of the notes using a method which recognizes interest at a constant rate on the outstanding principal balance. The net assets of the soft drink bottling operations scheduled for future disposition are not material.

## 6. Pension Plans

The Company's pension plans cover substantially all employees who are not members of bargaining units. Pension expense including costs for bargaining units was \$1,316,000 in 1978 and \$1,642,000 in 1977. At the dates of the most recent valuations, the aggregate unfunded past service costs approximated \$2,227,000, and the actuarially computed value of vested benefits of two plans exceeded the value of the pension fund assets and balance sheet accruals by approximately \$1,423,000.

## 7. Stock Option Plans

The Company's qualified stock option plan, which expired in 1977, authorized the granting of options to purchase common stock at not less than 100% of the market value at the date of grant and in quantities not greater than 50,000 shares in any one calendar year. Options were held by officers and employees at prices ranging from \$9.94 to \$20.38 per share.

The Company's non-qualified stock option plan authorizes the granting of options to purchase 300,000 shares of its common stock at not less than 100% of the market value at the date of grant. The plan will terminate when all shares have been granted or on a date determined by the Board of Directors. Non-qualified stock options were held by officers and employees at prices ranging from \$15.13 to \$18.00 per share.

Further information relating to options is as follows:

	Qualified Stock Option Plan		Non-Qualified Stock Option Plan	
	1978	1977	1978	1977
Options outstanding at January 1 . . . . .	132,050	104,050	84,000	69,000
Options granted . . . . .	0	50,000	53,500	20,000
Options exercised . . . . .	(13,000)	(11,000)	(2,000)	0
Options cancelled . . . . .	(12,250)	(11,000)	(6,000)	(5,000)
Options outstanding at December 31 . . . . .	<u>106,800</u>	<u>132,050</u>	<u>129,500</u>	<u>84,000</u>
Options exercisable at December 31 . . . . .	<u>106,800</u>	<u>87,050</u>	<u>27,000</u>	<u>21,333</u>
Shares of common stock reserved for the granting of additional options at December 31 . . . . .	<u>0</u>	<u>0</u>	<u>168,500</u>	<u>216,000</u>
Value of options exercised . . . . .	<u>\$ 206,000</u>	<u>106,000</u>	<u>31,000</u>	<u>0</u>
Value of options outstanding . . . . .	<u>\$1,694,000</u>	<u>2,158,000</u>	<u>2,038,000</u>	<u>1,313,000</u>



## 8. Changes in Common Stock and Capital in Excess of Par during 1977 and 1978

In thousands

	Common stock issued		Capital in Excess of Par
	Shares	Amount	
Balance January 1, 1977	8,169	\$8,169	\$8,242
Sale of stock to employees exercising options	11	11	95
Balance December 31, 1977	8,180	8,180	8,337
Sale of stock to employees exercising options	15	15	223
Balance December 31, 1978	8,195	\$8,195	\$8,560

## 9. Leases

The Company leases real estate, vehicles, production and data processing equipment for periods that vary between four and twenty years. Some leases provide for contingent rentals based upon a percentage of sales, mileage or production. Effective June 30, 1978, all financing leases were capitalized to reflect the retroactive application of Statement of Financial Accounting Standards No. 13. The consolidated financial statements have been restated accordingly, with Shareholders' Equity at December 31, 1976 reduced \$315,000 to \$88,756,000. The effect on net income was immaterial.

Future minimum lease payments under capitalized leases as well as future minimum payments and sublease rentals required under operating leases are as follows:

In thousand of dollars

	Capitalized Leases	Operating Leases	
		Minimum Payments	Sublease Rentals
1979	\$ 2,120	2,219	134
1980	1,992	1,723	97
1981	1,547	1,498	81
1982	1,202	1,317	74
1983	835	1,211	70
Later years	6,939	7,995	179
Total minimum payments	14,635	15,963	635
Less: Estimated executory costs	192		
Less: Amount representing interest	6,410		
Net present value	8,033		
Less: Current portion	1,431		
Long-term obligation	\$ 6,602		

For years ended December 31, 1978 and 1977, rental expenses included \$2,362,000 and \$2,793,000 for operating leases, \$1,026,000 and \$1,225,000 for contingent rentals and \$133,000 and \$50,000 for sublease rentals, respectively.

As a lessor, the Company on December 31, 1978, entered into an agreement with the purchasers of four bottling plants to lease the land and buildings, having a net book value of \$3,243,000, for a period of fifteen years. Future rentals are as follows: 1979-\$79,000; 1980-\$79,000; 1981-\$294,000; 1982-\$294,000; 1983-\$294,000; and later years-\$2,944,000.

## 10. Financial Reporting by Business Segments

The Company's operations involve four businesses. Soft drink operations produce and market principally RC Cola, Diet Rite and Nehi brands to retail stores through franchised and company-owned bottlers. The fast food business involves Arby's roast beef restaurants. Citrus operations process and market natural fruit juice products under the Adams and Texsun brands and private labels. Home furnishings involve the production and marketing of Frederick Cooper lamps, Couroc serving trays, Athens bedroom and occasional furniture and Hoyne mirror tiles. Foreign operations and export sales are not material.

Financial data by the four business segments for 1978 and 1977 are shown below in thousands of dollars.

	Soft Drink	Fast Food	Citrus	Home Furnishings	Corporate	Consolidated
At December 31, 1978 or for year then ended						
Net Sales	\$213,210	47,128	68,419	61,926		390,683
Operating profit	\$ 11,119	5,518	8,845	397	(4,072)	21,807
Interest expense						(5,545)
Other income, net						408
Provision for unusual write-offs and losses	\$ (11,995)	(700)		(2,255)		(14,950)
Income before income taxes						1,720
Depreciation and amortization expense	\$ 8,492	1,983	1,110	962	222	12,769
Additions to property, plant and equipment	\$ 9,964	15,681	1,530	1,638	12	28,825
Identifiable assets	\$ 65,084	46,510	38,962	36,496	12,956	200,008
At December 31, 1977 or for year then ended*						
Net sales	\$202,697	36,625	53,493	56,804		349,619
Operating profit	\$ 20,961	4,985	8,613	4,512	(3,939)	35,132
Interest expense						(3,084)
Other income, net						1,526
Income before income taxes						33,574
Depreciation and amortization expense	\$ 8,212	1,136	1,121	911	222	11,602
Additions to property, plant and equipment	\$ 10,156	15,119	987	1,460	36	27,758
Identifiable assets	\$ 70,379	31,603	25,960	36,613	8,484	173,039

\*Restated



## Accountants' Report

### 11. Acquisition

The Company has agreed to purchase during March 1979 the stock of three closely-held companies, whose business is the operation of 35 franchised Arby's restaurants. Of the approximate \$8,000,000 purchase price, the Company will pay approximately \$2,300,000 cash upon closing and issue one-year and two-year notes at prime rates for the remainder. A minority shareholder of the three companies is an executive officer of the Company.

### 12. Quarterly Financial Data (Unaudited)

The following is a summary of selected quarterly financial data for the years ended December 31, 1978 and 1977 in thousands of dollars except per share data.

	For Quarter Ended			
	Mar 31	Jun 30	Sep 30	Dec 31
1978:				
Net sales . . . . .	\$ 89,629	101,114	104,585	95,355
Gross profit . . . . .	35,575	42,320	41,909	33,793
Income before unusual write-offs and losses and before income taxes	4,081	6,595	4,446	1,548
Provision for unusual write-offs and losses . . . . .				(14,950)
Income (loss) before income taxes	4,081	6,595	4,446	(13,402)
Net income (loss) . . . . .	\$ 2,185	3,687	2,445	(6,936)
Earnings (loss) per average share outstanding . . . . .	\$ .27	.45	.30	(.85)
1977*:				
Net sales . . . . .	\$ 77,760	89,832	96,421	85,606
Gross profit . . . . .	35,084	41,011	42,081	34,065
Income before income taxes . . . . .	7,632	10,274	9,772	5,896
Net income . . . . .	\$ 4,230	5,695	5,416	3,268
Earnings per average share outstanding . . . . .	\$ .52	.69	.66	.40

\*Restated.

Fourth quarter 1978 includes pretax charges of approximately \$1,500,000 to adjust inventory valued at cost to net realizable value.

For additional information, refer to Management's Discussion and Analysis.

### 13. Replacement Cost Information (Unaudited)

In compliance with regulations of the Securities and Exchange Commission, the Company will include in its Annual Report Form 10-K filing with the SEC information pertaining to current replacement costs of its inventories and productive capacity which would increase cost of sales and depreciation if this replacement cost data were used. Since the replacement cost data is limited to selected categories of assets and costs, disregards other assets, costs, revenues and liabilities and requires subjective judgments in its preparation, the Company cautions that there are significant inherent limitations in using this information to adjust reported net income.

### TO THE SHAREHOLDERS ROYAL CROWN COMPANIES, INC.

We have examined the consolidated balance sheets of Royal Crown Companies, Inc. and Subsidiaries as at December 31, 1978 and 1977, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned consolidated financial statements present fairly the financial position of Royal Crown Companies, Inc. and Subsidiaries at December 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Coopers & Lybrand*

COOPERS & LYBRAND

Atlanta, Georgia

February 23, 1979

### Market Price of Stock and Cash Dividends

Quarter Ended	Market Price Range (\$)			Cash Dividends Declared (¢)
	High	Low	Close	
1977				
March 31 . . . . .	19 1/4	15 1/4	15 7/8	20
June 30 . . . . .	17 1/8	14 5/8	16	20
September 30 . . . . .	21 1/8	16 1/8	20 1/2	25
December 31 . . . . .	21 1/2	16 3/8	18 3/4	25
1978				
March 31 . . . . .	19 3/8	18	18 5/8	25
June 30 . . . . .	20 7/8	17 1/8	17 3/8	25
September 30 . . . . .	19 1/2	15 1/8	17 3/4	26
December 31 . . . . .	18 1/4	13	15 1/8	26

The market price range of Royal Crown Companies, Inc. common stock traded on The New York Stock Exchange, according to "The Wall Street Journal," and the cash dividends declared in each quarter of 1977 and 1978 are shown in the table above. Quarterly dividends were increased 30% over the 2-year period.

### Form 10-K Available

The Form 10-K report for Royal Crown Companies, Inc., filed annually with the Securities and Exchange Commission, is available upon request. It may be obtained by writing to: Investor Relations, Royal Crown Companies, Inc., 41 Perimeter Center East, N.E., Atlanta, Georgia 30346.



## Management's Discussion and Analysis

The following discussion is presented to explain certain significant factors which affected the Company's operations during 1978 and 1977. The Company's accounting policies, consolidated financial statements and notes to consolidated financial statements should be read in conjunction with this discussion as they are essential in evaluating the Company's results of operations.

Prior to December 31, 1978, a decision was made to dispose of certain soft drink bottling operations which have incurred operating losses in recent years and a home furnishing subsidiary and to recognize some unusual expense items. Accordingly, a one-time provision of \$14,950,000 was charged against 1978 operations for unusual write-offs and losses. See note 5, "Provision for Unusual Write-offs and Losses."

### 1978 Compared to 1977

Net sales were up 12% over 1977. Soft drink sales advanced 5%, while the revenues of the three other divisions — fast food (up 29%), citrus (up 28%) and home furnishings (up 9%) — were at record levels. Soft drink unit shipments were slightly below prior year; higher prices accounted for the increase in soft drink revenues. However, as discussed later in the analysis of costs, competitive price promotions throughout soft drink operations during most of the year more than offset the moderately higher prices.

Fast food revenues grew proportionately with the openings of new company-owned Arby's restaurants; sales volume per unit was at last year's level. Citrus sales were strong in both volume and price, as operations met increasing demands at higher prices by reducing inventories. Sales by the home furnishings operations were up in units and generally in prices compared to 1977.

Cost of sales increased 20% due primarily to the following: the adverse weather in early 1978 reduced soft drink and fast food sales causing higher unit fixed costs; costs of soft drink containers rose significantly due to a change in the sales mix to the higher cost, nonreturnable packages; higher meat and labor costs at Arby's and higher container and fruit costs at citrus reduced gross margins below prior year in both the fast food and citrus operations (fruit costs during the fourth quarter of 1978 were substantially above prior year's percentage); the percent cost of the two main raw materials in home furnishings operations — lumber and glass — were higher in 1978; and a sizable inventory write-down from cost to net realizable value impacted home furnishings' gross margins in the fourth quarter 1978.

Marketing, administrative and other expenses as a percentage of sales were comparable in both years. Significant increases in the 1978 soft drink advertising and promotional expenses to meet strong promotional discounting by competitors were offset by lower operating expenses as a percentage of sales in other operations.

Interest expense rose 80% over the prior year as a result of both increased borrowing and higher interest rates. Expansion of Arby's restaurants is the major reason for greater borrowings in 1978 over 1977. At December 31, 1978, there were 84 company-owned restaurants open, up 19 from December 31, 1977. The decline in other income in 1978 was primarily caused by lower earnings of an unconsolidated subsidiary.

The effective tax rate of 19.7% in 1978 was down significantly from the 44.6% in 1977 and was caused by the influence of large investment tax credits upon lower taxable earnings.

Current assets at December 31, 1978 exceeded current liabilities by 1.98 times versus 2.85 times at December 31, 1977. Long-term borrowings, including capitalized lease obligations, totaled \$56,837,000 at December 31, 1978 and equaled 61% of shareholders' equity.

### 1977 Compared to 1976

Net sales increased 22% over 1976. Both soft drink and citrus sales were up 16%. Fast food revenues increased 466%, as the full year revenues of Arby's, acquired in the fourth quarter of 1976, were included in 1977. Home furnishings sales declined 5%.

Soft drink division sales in 1977 included ten-months' revenues of three bottling plants, purchased in February 1977. Excluding these sales, soft drink revenues advanced 5% for the year, mainly due to volume. Citrus revenues were up as both volume and pricing improved. Home furnishings sales trailed prior year due to intense price competition in the mirror tile and picture frame businesses and to sluggish sales in Canada.

Cost of sales in 1977 increased 26% over 1976, due largely to pricing pressures in home furnishings operations, high production costs at several soft drink bottling plants (especially in the fourth quarter), a two-week labor strike in mid-year at the Chicago bottling plant, a "cola price war" in the fourth quarter and the addition of the lower-margin bottling operations purchased in February.

Marketing, administrative and other expenses as a percentage of sales were slightly lower in 1977 than in 1976, as soft drink advertising and promotional expenses for Diet Rite were curtailed for most of 1977, due to the saccharin controversy.

Interest expense increased 148% over 1976 from higher borrowings related to the Arby's and bottling acquisitions and from the increase in construction of new Arby's restaurants. Higher earnings of an unconsolidated subsidiary plus gains on sales of assets were the main factors for the increase in other income.

The effective tax rate for 1977 was 44.6% compared to 47.7% in 1976. The lower tax rate in 1977 was due largely to investment tax credits on increased capital expenditures.

Current assets at December 31, 1977 exceeded restated current liabilities by 2.85 times versus 2.62 times at December 31, 1976. Total long-term borrowings, used mainly for expansion of Arby's, plus restated capitalized lease obligations at year end were \$39,442,000, amounting to 39% of shareholders' equity.



# Financial Data by Business Segments

Royal Crown Companies, Inc. and Subsidiaries

In thousands of dollars except per share data

	For Year Ended December 31				
	1978	1977*	1976*	1975*	1974*
Net sales:					
Soft drink _____	\$213,210	202,697	174,793	164,360	137,802
Fast food _____	47,128	36,625	6,465	0	0
Citrus _____	68,419	53,493	46,304	43,342	36,165
Home furnishings _____	61,926	56,804	59,868	55,077	53,463
Total net sales _____	390,683	349,619	287,430	262,779	227,430
Cost of sales _____	237,086	197,378	155,948	149,213	139,817
Gross profit _____	153,597	152,241	131,482	113,566	87,613
Marketing, administrative and other expenses _____	131,790	117,109	97,683	85,667	71,344
Operating profit:					
Soft drink _____	11,119	20,961	22,734	21,581	9,137
Fast food _____	5,518	4,985	984	0	0
Citrus _____	8,845	8,613	6,412	5,155	5,796
Home furnishings _____	397	4,512	7,440	4,629	4,796
Corporate expenses _____	(4,072)	(3,939)	(3,771)	(3,466)	(3,460)
Total operating profit _____	21,807	35,132	33,799	27,899	16,269
Interest expense _____	(5,545)	(3,084)	(1,246)	(1,707)	(2,168)
Other income (expense), net _____	408	1,526	773	(303)	1,939
Income before unusual write-offs and losses and before income taxes _____	16,670	33,574	33,326	25,889	16,040
Provision for unusual write-offs and losses _____	14,950	0	0	0	0
Income before income taxes _____	1,720	33,574	33,326	25,889	16,040
Provision for income taxes _____	339	14,965	15,896	12,475	7,767
Net income _____	\$ 1,381	18,609	17,430	13,414	8,273
Average shares outstanding _____	8,186,509	8,176,325	8,158,550	8,143,500	8,125,000
Per average share:					
Net income _____	\$ .17	2.27	2.14	1.65	1.02
Cash dividends declared _____	\$ 1.02	.90	.76	.68	.64

\*Restated



## Officers

Chairman of the Board  
William T. Young

President and  
Chief Executive Officer  
Donald A. McMahon

Chairman of the  
Executive Committee  
Clarence B. Hanson, Jr.

Vice Presidents  
Fred M. Adamany  
Arnold Belasco  
Anthony F. Mugnolo  
W. Nolan Murrah, Jr.  
Richard J. St. John

Secretary  
W. Nolan Murrah, Jr.

Treasurer  
Anthony F. Mugnolo

Controller  
George W. Gray

## Directors

Cason J. Callaway, Jr., 1,2  
President and Chief Executive Officer  
Callaway Chemical Company  
Columbus, Georgia

Clarence B. Hanson, Jr., 1\*, 2  
President and Publisher  
The Birmingham News Company  
Birmingham, Alabama

B.H. Hardaway, III, 1  
Chairman of the Board  
The Hardaway Company  
Columbus, Georgia

David A. Jones, 1  
Chairman of the Board and  
Chief Executive Officer  
Humana Inc.  
Louisville, Kentucky

Donald A. McMahon, 1  
President and Chief Executive Officer

David C. Scott, 2\*  
Chairman of the Board, Chief Executive Officer  
and President  
Allis-Chalmers Corporation  
Milwaukee, Wisconsin

Fred R. Sullivan  
Chairman of the Board and  
President  
Walter Kidde & Company, Inc.  
Clifton, New Jersey

William T. Young, 1  
Chairman of the Board

1 Executive Committee  
2 Audit Committee  
\* Chairman

**Registrar and Transfer Agent**  
The First National Bank of Boston  
100 Federal Street, Boston, MA 02110

**Registrar**  
Columbus Bank and Trust Company  
1148 Broadway, Columbus, GA 31901

**Transfer Agent**  
The First National Bank of Columbus  
101 Thirteenth Street, Columbus GA 31902

**Accountants**  
Coopers & Lybrand  
1200 Equitable Building, Atlanta, GA 30303



**ROYAL CROWN COMPANIES, INC.**  
41 Perimeter Center East, N.E. Atlanta, Georgia 30346